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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 4622, FEBRUARY 13, 1976

1. SUMMARY. FRANCE'S ECONOMY SEEMS CLEARLY TO BE
EMERGING FROM 1974-75 RECESSION, WITH PRODUCTION PROS-
PECTS SHOWING STEADY IMPROVEMENT SINCE FIRST OF YEAR.
MAIN QUESTIONS AT PRESENT CONCERN EXTENT OF REVIVAL
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AMONG VARIOUS INDUSTRIAL SECTORS; ITS DURABILITY,

IN VIEW OF CONTINUED INFLATIONARY PRESSURES; AND EXTENT
TO WHICH "BOOM" IN CONSUMER SPENDING CAN BE COUNTER-
BALANCED BY INVESTMENT EXPENDITURES AND FOREIGN SALES.
LATEST ECONOMIC INDICATORS REINFORCE THESE
WORRIES: WHEREAS INDUSTRIAL OUTPUT ROSE SUBSTANTIALLY
IN DECEMBER, PRICE INFLATION, FOREIGN-TRADE AND UNEMPLOY-
MENT BAROMETERS ALL TOOK TURN FOR THE WORSE IN JANUARY.
END SUMMARY.

2. ECONOMIC SITUATION AND OUTLOOK --

OFFICIALLY AT LEAST, GOF CONSIDERS FRANCE'S WORST
ECONOMIC RECESSION IN POSTWAR HISTORY TO BE BEHIND
THEM -- A VIEW ENDORSED BY MOST ANALYSTS HERE. "THERE'S
NO DOUBT ABOUT IT, THE RECOVERY IS UNDERWAY," SAID
PRIME MINISTER CHIRAC FEBRUARY 15, ADDING THAT "WE
STILL HAVE SOME PROBLEMS." FINANCE MINISTER FOURCADE
CONTINUED ON THE UPEAT THE FOLLOWING DAY, SAYING THAT
REVIVAL IN INDUSTRIAL PRODUCTION WAS WELL-ESTABLISHED
WHILE CALLING FOR INCREASED INVESTMENTS AND FOREIGN
SALES, AS WELL AS CONTINUED EFFORTS TO COMBAT PRICE
INFLATION. LATEST SURVEYS OF BUSINESS SITUATION
AND ECONOMIC OUTLOOK IN FRANCE INDICATE PRODUCTION
PROSPECTS HAVE IMPROVED STEADILY SINCE FIRST OF YEAR,
WITH INDUSTRIAL OUTPUT RISING AND LEVEL OF NEW ORDERS
MOVING WELL AHEAD OF DELIVERIES. THUS FAR, HOWEVER,
PRINCIPAL IMPETUS APPEARS TO HAVE BEEN UPSURGE IN
CONSUMER SPENDING, AND OVERALL RECOVERY EXPECTED TO
PROCEED AT FAIRLY MODEST PACE THROUGH FIRST HALF OF
YEAR.

ACCORDING TO FEBRUARY SURVEY OF ECONOMY CONDUCTED
BY PARIS CHAMBER OF COMMERCE, UPTURN IN INDUSTRIAL
ACTIVITY HAS GAINED MOMENTUM SINCE LAST OCTOBER AND
POSSIBLY EXCEEDS LEVELS INDICATED BY MONTHLY INDICES
OF INDUSTRIAL PRODUCTION (SEE PARA. 3 BELOW). IN ITS
FEBRUARY 15 REPORT ON FRENCH ECONOMIC SITUATION, BANK
OF FRANCE AGREED THAT INCREASES IN PRODUCTION HAD
CONTINUED DURING JANUARY, NOTING THAT SEASONAL SLOW-
DOWN IN SOME CONSUMER-GOODS INDUSTRIES HAD PROVEN LESS
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EXTENSIVE THAN USUAL. THUS OVERALL OUTPUT ESTIMATED
TO BE SOMEWHAT ABOVE LEVEL OF JANUARY 1975 AND EXCESS
INDUSTRIAL CAPACITY -- WHILE REMAINING SUBSTANTIAL --
WAS SLIGHTLY REDUCED. OUTLOOK AMONG INDUSTRIALISTS
SURVEYED IN FEBRUARY BY INSEE (NATIONAL STATISTICS
INSTITUTE) SAID TO BE "EXPANSIONARY"; CONFIRMING TREND
NOTED IN ITS JANUARY SURVEY (SEE PARIS 2670), LATEST
INSEE REPORT SAID UPTURN IN INDUSTRIAL ACTIVITY HAS

SPREAD FROM CONSUMER-GOODS SECTOR TO INTERMEDIATE AND CAPITAL-EQUIPMENT SECTORS. SOME DOUBT NEVERTHELESS REMAINS AS TO EXTENT RECOVERY IS "BROADENING" AMONG INDUSTRIAL SECTORS. WHILE INSEE AND BANK OF FRANCE REPORTED SUBSTANTIAL INCREASES IN INTERMEDIATE-GOODS OUTPUT, CHAMBER OF COMMERCE CONSIDERED THIS SECTOR TO BE LAGGING BEHIND OTHERS. CAPITAL-EQUIPMENT SECTOR, ACCORDING TO CHAMBER REPORT, ENTERED 1976 WITH "FAVORABLE" OUTLOOK, AND GROWTH IN CONSUMER-GOODS OUTPUT REMAINS STRONG.

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GENERAL OUTLOOK AMONG RESPONDENTS TO BANK OF FRANCE SURVEY WAS FOR MODERATE RATE OF GROWTH IN PRODUCTION UNTIL SPRING MONTHS -- OR EVEN, ACCORDING TO SUME, UNTIL SUMMER. BUT A MAJOR PRIVATE BANK, CREDIT COMMERCIAL DE FRANCE, WARNED AGAINST RISK OF TOO-RAPID EXPANSION SO LONG AS INFLATIONARY PRESSURES REMAIN HIGH. WITH ALTERNATIVE BEING SEVERAL YEARS OF "STOP-AND-GO" ECONOMIC POLICIES, CCF ADVOCATED "PROGRESSIVE" RECOVERY DURING 1976.

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MOST ANALYSTS AGREE INDUSTRIALISTS ARE TURNING ONCE AGAIN TO INVENTORY INVESTMENT IN ORDER TO BACK-STOP RISING SALES, ALTHOUGH STOCKBUILDING IN GENERAL REMAINS AT FAIRLY MODEST LEVELS. ACCORDING TO BANQUE DE PARIS ET DES PAYS-BAS (PARIBAS), STOCKS HAVE RETURNED TO NORMAL LEVELS (BELOW NORMAL IN CONSUMER-GOODS INDUSTRIES), AND THUS INDUSTRIAL OUTPUT IS EXPECTED TO GROW STEADILY IN THE FACE OF EXPANDING DOMESTIC DEMAND. INSEE LIKEWISE REPORTED THAT INVENTORIES OF FINISHED GOODS WERE NEAR NORMAL LEVELS IN CAPITAL-EQUIPMENT SECTOR, AND SAID DRAWING-DOWN OF STOCKS HAD APPARENTLY RUN ITS COURSE IN OTHER SECTORS, IN VIEW OF "STRONG AND SPREADING" REVIVAL IN INTER-MEDIATE-GOODS SECTOR.

HOUSEHOLD CONSUMPTION IS SEEN BY PARIBAS AS PRINCIPAL IMPETUS FOR RECOVERY THUS FAR (REPORTEDLY REACHING "BOOM" PROPORTIONS IN THE FOURTH QUARTER OF 1975, RISING AT 12 PERCENT ANNUAL RATE.) CONSUMPTION OF INDUSTRIAL PRODUCTS SINCE SEPTEMBER INCREASED BY 2 PERCENT MONTHLY, AND IN THE FOURTH QUARTER WAS NEARLY 11 PERCENT ABOVE AVERAGE FOR FIRST QUARTER 1975. TOTAL CONSUMPTION EXPENDITURES INCREASED ROUGHLY 6.5 PERCENT IN REAL TERMS DURING FOURTH QUARTER 1975, ACCORDING TO CHAMBER OF COMMERCE. CHAMBER'S INITIAL ESTIMATES SHOW JANUARY CONSUMPTION OF INDUSTRIAL PRODUCTS REMAINED ROUGHLY AT DECEMBER LEVELS (ALTHOUGH MAJOR RETAILERS' TURNOVER WAS DOWN SUBSTANTIALLY). CONTINUED BUOYANCY OF HOUSEHOLD SPENDING WAS SAID BY BANK OF FRANCE TO HAVE LED TO NEW GAINS IN REAL DOMESTIC DEMAND DURING FIRST TWO MONTHS OF 1976. ("TRICKLING-DOWN" EFFECTS OF GOF'S ECONOMIC-SUPPORT PROGRAM WERE ALSO CITED IN THIS REGARD.) SUCH DEVELOPMENTS CONSIDERED SOMEWHAT TRANSITORY IN VIEW OF GENERAL SLUMP IN FINAL DOMESTIC DEMAND DURING EARLY PART OF 1975; THUS CONSUMPTION

OF INDUSTRIAL PRODUCTS DURING FIRST HALF 1976 EXPECTED
BY PARIBAS TO MATCH ROUGHLY THE AVERAGE FOR LATTER
HALF OF 1975.

DOMESTIC ORDERS FOR CAPITAL GOODS, ACCORDING TO
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CHAMBER OF COMMERCE, ROSE SHARPLY IN DECEMBER AND EARLY JANUARY AS FIRMS SOUGHT TO TAKE ADVANTAGE OF GOF'S INVESTMENT INCENTIVES BEFORE JANUARY 7 DEADLINE. THESE WERE SAID LARGELY TO INVOLVE LIGHTER MACHINERY AND EQUIPMENT AND, ACCORDING TO INITIAL ESTIMATES, AMOUNTED TO NEARLY 40 BILLION FRANCS. (GOF'S TARGET FOR PROGRAM WAS FF 45 BILLION IN NEW INVESTMENT EXPENDITURES.) DROP IN CAPITAL-EQUIPMENT ORDERS FOLLOWING EXPIRATION OF OFFICIAL INCENTIVES WAS SAID BY BANK OF FRANCE TO HAVE BEEN LESS SEVERE THAN ANTICIPATED EARLIER.

CAPITAL-EQUIPMENT SECTOR SUFFERED MARKED SLOWDOWN IN FOREIGN ORDERS DURING 1975 BUT, BY YEAR'S END, THESE REPORTEDLY HAD REGAINED LEVELS AT START OF YEAR. DOMESTIC ORDERS, LARGELY THOSE ENCOURAGED BY GOF'S INCENTIVES, ENABLED INCREASE OF SOME 20 PERCENT IN SECTOR'S TOTAL ORDERS DURING SECOND HALF OF 1975. DOMESTIC STEEL ORDERS INCREASED SOME 30 PERCENT IN THE FINAL QUARTER OF 1975.

INSEE REPORTED OVERALL PRICE EXPECTATIONS IN INDUSTRY, WHILE CONTINUING TO RISE, ARE CURRENTLY LESS INFLATIONARY THAN IN PAST THREE MONTHS. SURPRISINGLY, INSEE SAID OUTLOOK FOR PRODUCER PRICES WAS LEAST EXPANSIVE IN THOSE BRANCHES OF INDUSTRY (E.G., AUTOS, HOUSEHOLD APPLIANCES) WHICH HAVE LATELY SHOWN STRONGEST UPTURN. CHAMBER OF COMMERCE REPORTED RECENT INCREASES IN WAGES AS WELL AS PRICES HAVE MODERATED SOMEWHAT.

INSEE'S BI-MONTHLY SURVEY OF RETAILERS SHOWED RENEWED CONFIDENCE IN BUSINESS PROSPECTS AND STRONG

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INCREASES IN INTENDED ORDERS. ACCORDING TO SURVEY
RESPONDENTS, RATE OF INCREASE IN CONSUMER PRICES FOR
MANUFACTURED GOODS (EXCEPT AUTOS), AFTER HAVING
MODERATED DURING SECOND HALF 1975, SHOULD REGISTER
"SLIGHT ACCELERATION" DURING COMING MONTHS. SIMILAR
FINDINGS WERE REPORTED IN BI-MONTHLY SURVEY OF WHOLE-
SALE SECTOR; MAJOR INCREASES IN WHOLESALE PRICES ARE
SEEN ESPECIALLY LIKELY FOR INDUSTRIAL INTERMEDIATE
GOODS AND NON-FOOD CONSUMER GOODS.

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3. INDUSTRIAL PRODUCTION UP IN DECEMBER --

FRENCH INDUSTRIAL OUTPUT ROSE 3.6 PERCENT IN THE

FINAL MONTH OF 1975 AND, FOR THE FIRST TIME SINCE THE BEGINNING OF RECESSION 15 MONTHS PREVIOUSLY, SURPASSED THE LEVEL OF ONE YEAR EARLIER. OVERALL INSEE INDEX OF INDUSTRIAL OUTPUT SET AT 116 FOR DECEMBER (SEASONALLY ADJUSTED, 1970 EQUALS 100), UP FROM 112 IN NOVEMBER AND REVISED INDEX OF 113 IN OCTOBER, AND NEARLY 2 PERCENT ABOVE INDEX OF 114 SET IN DECEMBER 1974.

FRENCH INDUSTRIAL PRODUCTION-1975

(THREE-MONTH MOVING AVERAGES; SEASONALLY ADJUSTED'
BASE 1970 AS 100)

JAN FEB MAR APR MAY JUNE JULY AUG SEP OCT NOV DEC
115 115 114 113 111 111 111 111 112 112 114

DURING 1975, AVERAGE MONTHLY INDEX OF INDUSTRIAL PRODUCTION DECLINED 2.5 PERCENT IN FIRST QUARTER; 3.5 PERCENT IN SECOND QUARTER; 0.9 PERCENT IN THIRD QUARTER; AND ROSE 2.7 PERCENT IN FOURTH QUARTER.

INSEE'S QUARTERLY INDEX OF INDUSTRIAL OUTPUT (ON A WIDER BASE THAN THE MONTHLY INDEX, AND THUS MORE RELIABLE; 1970 EQUALS 100) SET AT 113 FOR THIRD QUARTER 1975, UNCHANGED FROM SECOND QUARTER. SECOND-QUARTER INDEX HAD BEEN DOWN 0.9 PERCENT FROM FIRST QUARTER, AND FIRST-QUARTER INDEX WAS DOWN 3.4 PERCENT FROM FINAL QUARTER OF 1974.

4. FOREIGN TRADE DEFICIT APPROACHES FF 1 BILLION
IN JANUARY --

FRANCE'S FOREIGN-TRADE DEFICIT WIDENED TO NEARLY ONE BILLION FRANCS IN JANUARY (SEASONALLY ADJUSTED, FOB-FOB), AFTER HAVING NARROWED IN TWO PRECEDING MONTHS. EXPORTS ROSE 3.2 PERCENT TO FF 20.0 BILLION -- ROUGHLY EQUAL IN NOMINAL TERMS TO RECORD LEVEL REACHED IN FEBRUARY 1975. IMPORTS, HOWEVER, INCREASED MORE THAN SIX PERCENT TO FF 20.9 BILLION, APPROACHING RECORD LEVELS OF MID-SUMMER 1974. SEASONALLY-ADJUSTED RATE OF EXPORT COVER DROPPED FROM 98.5 PERCENT OF IMPORTS IN UNCLASSIFIED

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DECEMBER TO 95.6 PERCENT IN JANUARY.

FRENCH FOREIGN TRADE
(SEASONALLY ADJUSTED; IN BILLIONS OF FRANCS, FOB-FOB)

AUG SEP OCT NOV DEC JAN
IMPORTS 17.6 18.4 19.7 20.0 19.7 20.9
EXPORTS 18.9 18.5 18.2 19.3 19.4 20.0
BALANCE 1.2 0.1 -1.6 -0.7 -0.3 -0.9

FOREIGN TRADE MINISTER BARRE SAID RECENT RISES IN NOMINAL IMPORT FIGURES REFLECTED OCT. 1 INCREASE IN PETROLEUM PRICES, INITIAL EFFECTS OF WHICH BEGAN TO APPEAR ONLY IN JANUARY (SEE PARA. 5 BELOW). BARRE ALSO LINKED RISING IMPORTS TO GENERAL UPTURN IN INDUSTRIAL ACTIVITY. DESPITE FACT THAT "FOREIGN MARKETS ARE STILL TROUBLESOME," HE DREW ENCOURAGEMENT FROM THREE CONSECUTIVE MONTHS OF RISING EXPORTS.

DEFINITIVE RESULTS FOR 1975, AS INDICATED BY FOREIGN TRADE MINISTRY IN FEB. 23 REPORT, SHOWED FOREIGN-TRADE SURPLUS OF FF 6.7 BILLION. FINISHED INDUSTRIAL PRODUCTS ACCOUNTED FOR 52 PERCENT OF FRENCH EXPORTS IN 1975, AS OPPOSED TO 46 PERCENT IN 1974. OF THESE, SALES OF CAPITAL EQUIPMENT INCREASED 21 PERCENT DURING YEAR. IMPORTS DECLINED RELATIVE TO 1974 LEVELS IN NEARLY ALL INDUSTRIAL SECTORS; FOOD IMPORTS REGISTERED STEADY INCREASES. GEOGRAPHICALLY, EXPORTS TO AND IMPORTS FROM EC COUNTRIES BOTH DECLINED 6 PERCENT FROM 1974 LEVELS. EXPORTS TO MIDDLE EAST ROSE 47 PERCENT, THOSE TO EASTERN EUROPE ROSE 44 PERCENT, AND THOSE TO LDCS

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ROSE 28 PERCENT DURING 1975. EXPORTS TO U.S. DECLINED 15.2 PERCENT.

PETROLEUM IMPORTS, ACCORDING TO FEB. 24 INDUSTRY REPORT, DECLINED 18.3 PERCENT IN 1975 TO 106 MILLION TONS.

IN SURVEY OF COMPETITIVENESS IN FOREIGN TRADE, RELEASED FEB. 18 BY INSEE, FRENCH PRODUCTS WERE FOUND TO HAVE LOST GROUND IN THE SECOND HALF OF 1975, IN UNCLASSIFIED

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BOTH FOREIGN AND DOMESTIC MARKETS. DIVERGENCE BETWEEN RETAIL PRICES OF DOMESTIC AND IMPORTED PRODUCTS ON FRENCH MARKETS WIDENED FROM 3.4 PERCENT (IN FAVOR OF FOREIGN GOODS) IN EARLY 1975 TO 5.7 PERCENT IN THE SECOND HALF. ON FOREIGN MARKETS, FRENCH PRODUCTS SUFFERED AN AVERAGE PRICE DIFFERENTIAL OF 4.1 PERCENT IN THE FIRST HALF OF 1975, 5.2 PERCENT IN THE SECOND HALF.

AT THE SAME TIME, ACCORDING TO FEB. 25 STATEMENT BY BARRE, FRANCE'S DEPENDENCE ON FOREIGN TRADE HAS BEEN GROWING STEADILY, FROM 14 PERCENT OF TOTAL OUTPUT IN 1969 TO 19 PERCENT CURRENTLY.

5. COMMODITY IMPORT PRICES CONTINUE TO RISE

FRENCH RAW-MATERIAL IMPORT PRICES REGISTERED INCREASE OF NEARLY ONE PERCENT IN JANUARY. OVERALL INSEE PRICE INDEX FOR PRIMARY PRODUCTS IMPORTED BY FRANCE SET AT 195.5 IN JANUARY (1968 EQUALS 100), UP FROM 193.8 IN DECEMBER AND FROM 176.9 IN JANUARY 1975. INCREASE WAS DUE TO IMPORT PRICES FOR INDUSTRIAL RAW MATERIALS, WHICH ROSE 2.3 PERCENT DURING MONTH. PRICES FOR PRIMARY FOODSTUFFS DROPPED NEARLY 1 PERCENT.

6. PRICE INFLATION ACCELERATES IN JANUARY --

CONSUMER PRICES ROSE 1.1 PERCENT IN JANUARY,
THE LARGEST MONTHLY INCREASE SINCE JANUARY 1975.
INSEE RETAIL PRICE INDEX (1970 EQUALS 100) SET AT
159.9 IN JANUARY, UP FROM 158.2 IN DECEMBER.
YEAR-OVER-YEAR PRICE INFLATION WAS 9.6 PERCENT,
IDENTICAL TO THAT REGISTERED FOR CALENDAR YEAR 1975.
HOWEVER, IN TERMS OF THREE-MONTH CHANGES IN CPI,
COMPOUNDED AT ANNUAL RATES, OVERALL PRICE INFLATION
HAD ACCELERATED FROM 8.0 PERCENT IN DECEMBER TO 9.2 PER-
CENT IN JANUARY.

RETAIL PRICE INFLATION
(MONTHLY CHANGES IN CONSUMER PRICE
INDICES, IN PERCENT)

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AUG SEP OCT NOV DEC JAN

MANUFACTURES	0.4	0.6	0.5	0.6	0.7	0.8
FOOD	1.0	1.1	0.8	0.6	0.7	0.9
SERVICES	0.8	1.1	0.8	0.8	0.4	1.9
OVERALL	0.7	0.8	0.8	0.6	0.6	1.1

FINANCE MINISTRY NOTED THAT SEASONAL FACTORS HAD
AFFECTED JANUARY INDEX, NOTABLY RENT INCREASES AT
FIRST OF YEAR BUT ALSO "PRICE ADJUSTMENTS" FOR AUTOS,
FUEL AND PUBLIC TRANSPORT. NEVERTHELESS, GOF WILL BE
HARD-PUT TO ACHIEVE ITS GOAL OF 7.5 PERCENT PRICE
INFLATION IN 1976 EVEN IF FEBRUARY INDEX SHOULD SHOW
SOME MODERATION. PRICE INDEX IN MARCH WILL BE
STRONGLY AffECTED BY SCHEDULED INCREASES IN PUBLIC-
UTILITY PRICES (15.4 PERCENT FOR ELECTRICITY, 7.5 PER-
CENT FOR GAS). EFFECTS OF THESE INCREASES, APPLYING
TO INDUSTRY AS WELL AS HOUSEHOLDS, WILL CONTINUE TO
HAVE UPWARD INCIDENCE ON PRICES FOR MANUFACTURED
GOODS IN SUBSEQUENT MONTHS.

IN RELATED DEVELOPMENT, ON MARCH 1, SOME 75 PERCENT
OF FRENCHMEN WERE REPORTED TO FAVOR A THREE-MONTH
FREEZE ON BOTH WAGES AND PRICES IN ORDER TO COMBAT
INFLATION. ON EVE OF TUESDAY'S DEBATE BETWEEN
FINANCE MINISTER FOURCADE AND OPPOSITION LEADER
FRANCOIS MITTERAND, POLL CONDUCTED BY EUROPE-1 RADIO
NETWORK FOUND THAT 56 PERCENT OF FRENCHMEN BLAME THEIR
COUNTRY'S ECONOMIC DIFFICULTIES ON WORLD CONDITIONS,
WHILE 36 PERCENT HOLD THE GOF PRIMARILY RESPONSIBLE.

REGARDING /POSSIBLE SOLUTIONS, 54 PERCENT OF RESPONDENTS FAVORED OFFICIAL ENCOURAGEMENT OF SAVINGS, EVEN

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IF THAT SHOULD SLOW DOWN PRODUCTION; 30 PERCENT ADVOCATED INCENTIVES FOR CONSUMER SPENDING, REGARDLESS OF INFLATIONARY CONSEQUENCES.

7. UNEMPLOYMENT CONTINUES TO RISE --

THE NUMBER OF REGISTERED UNEMPLOYED IN FRANCE
(SEASONALLY ADJUSTED) INCREASED NEARLY ONE PERCENT
IN JANUARY TO 928,200 AT MONTH'S END. UNFILLED JOB
OFFERS ROSE 3 PERCENT TO 110,200, APPROXIMATELY THE
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LEVEL OF MARCH, 1975. ON BASIS OF AVAILABLE DATA
WE ESTIMATE SEASONALLY-ADJUSTED UNEMPLOYMENT IN JANUARY,
FOR THIRD CONSECUTIVE MONTH, AT ROUGHLY 4.2 PERCENT
OF THE LABOR FORCE (SEE PARIS A-322 OF 1975 FOR METHODOLOGY).

LABOR MARKET INDICATORS
(SEASONALLY ADJUSTED; IN THOUSANDS, END-
OF-MONTH)

AUG SEP OCT NOV DEC JAN

REGISTERED
UNEMPLOYED 864.2 882.4 900.0 925.7 921.2 928.2

UNFILLED JOB
OFFERS 102.7 105.3 101.2 99.2 106.6 110.2

UNEMPLOYMENT
AS PERCENT OF
LABOR FORCE
(ESTIMATE) 3.9 4.0 4.1 4.2 4.2 4.2

SPEAKING ON TELEVISION FEBRUARY 19, PRIME MINISTER CHIRAC SAID UNEMPLOYMENT CONTINUES TO BE FRANCE'S MOST PRESSING AND DIFFICULT PROBLEM DESPITE A "LEVELLING-OFF IN THE NUMBER OF JOBLESS" DURING PAST FOUR MONTHS. CHIRAC SAID APPROXIMATELY HALF THE NUMBER OF REGISTERED UNEMPLOYED REPRESENTED YOUTHS ENTERING LABOR FORCE FOR FIRST TIME.

8. BALANCE OF PAYMENTS IN SURPLUS FOR 1975 --

FRANCE'S BALANCE OF PAYMENTS ON CURRENT ACCOUNT REGISTERED A SURPLUS OF 100 MILLION FRANCS IN 1975, COMPARED TO FF 28.7 BILLION DEFICIT IN 1974. CONFIRMING ADVANCE INFORMATION NOTED REFTEL, FINANCE MINISTRY ISSUED REPORT FEB. 13 GIVING PROVISIONAL BALANCE-OF-PAYMENTS FIGURES FOR FOURTH QUARTER AND YEAR, 1975 (POUCHED VIA PARIS A-100). FOLLOWING IS SUMMARY OF LATEST DATA FOR THIRD AND FOURTH QUARTERS, TOGETHER UNCLASSIFIED

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WITH REVISED FIGURES FOR PREVIOUS QUARTERS SHOWING
SOME CHANGES FROM THOSE REPORTED PARIS A-93.

FRENCH BALANCE OF PAYMENTS

(IN BILLIONS OF FRANCS; DATA FOR THIRD
AND FOURTH QUARTERS PRELIMINARY, ALL
OTHERS REVISED)

75-I 75-II 75-III 75-IV YEAR

TRADE BALANCE 1.1 4.9 1.9 0.3 8.2
NET SERVICES -0.2 2.0 -0.2 0.9 2.5

BALANCE ON
GOODS AND
SERVICES 0.9 6.9 1.7 1.2 10.7

NET TRANSFERS -2.5 -3.0 -2.7 -2.4 -10.6

BALANCE ON
CURRENT ACCT.-1.6 3.9 -1.0 -1.2 0.1

LONG TERM
CAPITAL 2.0 -0.1 -2.1 -1.2 -1.4

BASIC
BALANCE 0.4 3.8 -3.1 -2.4 -1.3

SHORT-TERM
CAPITAL PLUS
OMISSIONS 6.2 5.7 7.7 5.1 24.7

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CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /131 W

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 8398

INFO AMEMBASSY BONN

AMEMBASSY LONDON

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AMEMBASSY TOKYO

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USMISSION EC BRUSSELS

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AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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BALANCE ON

NON-MONETARY

TRANSACTIONS 6.6 9.5 4.6 2.7 23.4

MERCHANDISE TRADE ACCOUNT (INCLUDES "COURTAGE,"
OR THIRD-COUNTRY COMMODITY-BROKERAGE ACTIVITIES)
SHOWED SUBSTANTIAL SURPLUS IN FIRST HALF 1975 DUE TO
RECESSION-LED DROP IN DEMAND FOR IMPORTS. THIS SURPLUS
NARROWED IN THE SECOND HALF AS NOMINAL IMPORTS BEGAN
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TO ACCELERATE (REFLECTING RISING WORLD COMMODITY PRICES,
AS WELL AS DEPRECIATION IN FOREIGN-EXCHANGE VALUE OF
FRANC) WHILE EXPORTS CONTINUED TO DEVELOP UNEVENLY.
SEASONAL IMPROVEMENT IN NET SERVICES DURING SECOND
AND FOURTH QUARTERS LED TO FF 10.7 BILLION SURPLUS
FOR YEAR IN BALANCE ON GOODS AND SERVICES. TRANSFER
PAYMENTS (LARGELY REFLECTING REPATRIATION OF FOREIGN
WORKERS' EARNINGS) SHOWED SOME DECELERATION DURING THE
SECOND HALF, BUT SURPASSED GOODS AND SERVICES
BALANCE NONETHELESS. BALANCE ON CURRENT ACCOUNT THUS
MOVED FROM FF 3.9 BILLION SURPLUS IN SECOND QUARTER TO

FF 1.2 BILLION DEFICIT IN FOURTH QUARTER.

LONG-TERM CAPITAL MOVEMENTS, WHICH HAD CONTRIBUTED FF 10.4 BILLION NET INFLOW TOWARD FINANCING OF CURRENT DEFICIT IN 1974, SWITCHED TO FF 1.4 BILLION NET OUTFLOW IN 1975. THIS MOVEMENT REFLECTED HIGHER VOLUME OF MEDIUM AND LONG-TERM CREDITS GRANTED TO FOREIGNERS BY FRENCH EXPORTERS, AS WELL AS DECLINE IN LONG-TERM FOREIGN BORROWINGS (FROM FF 13.4 BILLION IN 1974 TO FF 10 BILLION IN 1975), LARGEMLY DURING THE SECOND HALF. SHORT-TERM CAPITAL PLUS ERRORS AND OMISSIONS RESULTED IN NET INFLOW OF FF 24.7 BILLION IN 1975, COMPARED TO FF 17.9 BILLION IN 1974.

9. MONEY SUPPLY (M2) EXPANDED TO 16 PERCENT IN 1975--

FRENCH MONEY SUPPLY, BROADLY DEFINED (M2), INCREASED 5.0 PERCENT DURING DECEMBER TO 777.4 BILLION FRANCS AT YEAR END. CURRENCY AND DEMAND DEPOSITS (M1) ROSE 9.2 PERCENT TO FF 431.3 BILLION, WHILE NEAR-MONIES INCREASED ONLY MARGINALLY TO FF 346.1 BILLION. ON A SEASONALLY-ADJUSTED BASIS, M2 EXPANDED 1.6 PERCENT IN DECEMBER TO FF 757.7 BILLION; M1 ROSE 3.9 PERCENT TO FF 412.7 BILLION; AND NEAR-MONIES ROSE 0.4 PERCENT TO FF 347.5 BILLION.

FOR 1975, INCREASE IN M2 AMOUNTED TO 16.0 PERCENT, COMPARED TO 18.1 PERCENT IN 1974/ AND 14.9 PERCENT IN 1973; GROWTH IN M1 WAS 12.7 PERCENT IN 1975 (15.2 PERCENT IN 1974, 9.6 PERCENT IN 1973); AND GROWTH OF UNCLASSIFIED

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NEAR-MONIES WAS 20.3 PERCENT (22.2 PERCENT IN 1974, 23.1 PERCENT IN 1973).

UNADJUSTED DATA ON COMPOSITION OF MONEY SUPPLY BY SOURCE SHOWED NET FOREIGN EXCHANGE RESERVES AT FF 49.6 BILLION (UP 3.6 PERCENT FROM NOVEMBER); CLAIMS ON PUBLIC SECTOR AT FF 99.7 BILLION (UNCHANGED); AND CREDITS TO THE ECONOMY AT FF 659.8 BILLION (UP 4.5 PERCENT).

FRENCH MONETARY AGGREGATES

(IN BILLIONS OF FRANCS, END-OF-PERIOD;
QUARTERLY CHANGES CUMULATIVE)

	1974	75-I	75-II	75-III	75-IV	
TOTAL CHANGE						
CHANGE						
CHANGE						
CHANGE						

NET FOREIGN

EXCH.RESERVES 37.4 2.2 7.3 5.7 12.2

CLAIMS ON

PUBLIC SECTOR 71.7 -2.2 7.3 27.8 28.0

CREDITS TO THE

ECONOMY 574.2 4.6 LL.8 28.5 85.6

OTHER ASSETS -13.0 -4.2 -9.9 -17.1 -18.8

MONEY SUPPLY

(M2) 670.3 -8.8 16.5 45.0 107.1

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 8399

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMEMBASSY TOKYO

USDEL MTN GENEVA

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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LESS:

NEAR-MONEY 287.7 19.2 24.5 40.7 58.4

MONEY SUPPLY

(M1) 382.6 -28.0 -8.0 4.3 48.7

10. SAVINGS UP 61 PERCENT IN 1975--

NET SAVINGS DEPOSITS DURING 1975 AMOUNTED TO
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31 BILLION FRANCS, ACCORDING TO OFFICIAL FIGURES
RELEASED BY THE CAISSE DES DEPOTS ET CONSIGNATIONS.
OF THE TOTAL, 20 BILLION FRANCS WERE ACCOUNTED FOR
BY ORDINARY DEPOSITS NET OF WITHDRAWALS IN PRIVATE
SAVINGS INSTITUTIONS. (COMPARABLE FIGURES FOR 1974
WERE FF 19.3 BILLION IN TOTAL NET SAVINGS, OF WHICH
FF 12.2 BILLION IN PRIVATE INSTITUTIONS. CHANGES
IN 1975 THUS AMOUNTED TO 61 AND 64 PERCENT,
RESPECTIVELY.) ON BASIS OF EXCESS IN SAVINGS
DEPOSITS OVER WITHDRAWALS, TOTAL VOLUME OF INVESTMENTS
BY SAVINGS BANKS AND CAISSE DES DEPOTS ROSE 4.6 PERCENT
FROM FF 39 BILLION IN 1974 TO FF 57 BILLION IN 1975.
TOTAL FUNDING FOR INFRASTRUCTURE AMOUNTED TO FF 21
BILLION IN LOANS FROM CAISSE DES DEPOTS TOGETHER WITH
BOND ISSUES. HOUSING FINANCE, LARGELY COMPRISING
PUBLICLY-SUPPORTED HOUSING, TOTLED FF 29 BILLION
FROM ALL INSTITUTIONS AFFILIATED WITH CAISSE DES
DEPOTS (OF WHICH FF 9 BILLION WAS ACCOUNTED FOR BY
SAVINGS-AND-LOAN AND SAVINGS-BOND FUNDS). INDUSTRIAL
AND COMMERCIAL FINANCING AMOUNTED TO FF 8 BILLION IN
1975.

11. HOUSING STARTS DOWN 5 PERCENT IN 1975--

DURING 1975, HOUSING STARTS IN FRANCE ARE
ESTIMATED TO HAVE DECLINED 5.4 PERCENT TO 520,000
FROM 550,000 IN 1974. ACCORDING TO BUREAU OF
BUILDING AND PUBLIC WORKS, 15 PERCENT DROP IN BUILDING
PERMITS DURING 1975--TOGETHER WITH "CONTINUING
UNCERTAINTY ABOUT EMPLOYMENT PROSPECTS" -- SHOULD RESULT
IN HOUSING STARTS BEING LIMITED TO SOME 525,000 IN 1976.

12. OFFICIAL INVESTMENT AIDS INCREASED--

AS INDICATED EARLIER BY FINANCE MINISTER FOURCADE (SEE PARIS 2670), COUNCIL OF MINISTERS HAS AUTHORIZED AN ADDITIONAL 3 BILLION FRANCS TO STIMULATE INVESTMENTS BY PRIVATE INDUSTRY, THROUGH GRANTS BY ECONOMIC AND SOCIAL DEVELOPMENT FUND (FDES). SOME 15 TO 20 BILLION FRANCS IN NEW INVESTMENT EXPENDITURES ARE EXPECTED TO BE GENERATED THEREBY, IN IRONWORKING, UNCLASSIFIED

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CHEMICALS, NICKEL, AND PAPER PULP INDUSTRIES. OFFICIAL CRITERIA FOR GRANTS ARE INVESTMENTS THAT WILL GENERATE NEW EMPLOYMENT AND "RE-ORIENT" INDUSTRY.

13. REGIONAL-DEVELOPMENT GRANT PROGRAM TO BE RELAXED--

GOF'S PROGRAM OF INCENTIVES TO ENCOURAGE INDUSTRIAL DEVELOPMENT IN ECONOMICALLY DEPRESSED AREAS (SEE PARIS A-335 OF 1975 FOR DETAILS) IS REPORTEDLY DUE TO BE RELAXED, IN VIEW OF EIGHT PERCENT DECLINE IN GRANTS UNDER PROGRAM DURING 1975. DURING 1974, AMOUNT OF THESE GRANTS HAD EXPANDED BY 43 PERCENT. AT PRESENT, FRANCE IS ONLY EC COUNTRY WHICH LIMITS AMOUNT OF REGIONAL-DEVELOPMENT SUBSIDIES WITH REGARD TO NUMBER OF NEW JOBS CREATED (FF 15,000 CEILING PER NEW JOB IN NEW FACILITIES, FF 12,000 CEILING PER NEW JOB IN PLANT EXTENSIONS.) CEILINGS OF THIS SORT PLACE CAPITAL-INTENSIVE FIRMS AT A DISADVANTAGE, AND THUS DATAR (INTERNAL ECONOMIC DEVELOPMENT ORGANIZATION) REPORTEDLY IS SEEKING TO HAVE THEM MODIFIED OR ABOLISHED.

NEW PROGRAM OF "DECENTRALIZATION" INCENTIVES IS ANTICIPATED, WHICH WOULD PLACE GREATER EMPHASIS ON SPECIALLY DESIGNATED MEDIUM-SIZED TOWNS AND RURAL AREAS THAN ON MAJOR CITIES. MOREOVER, FINANCIAL INTERMEDIARIES MAY BE OFFERED SPECIAL INCENTIVES TO ACQUIRE INTEREST IN SMALL AND MEDIUM-SIZED FIRMS.

14. NATIONAL ACCOUNTS SHOW UNEVEN ECONOMIC DEVELOPMENT IN 1975 --

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TO SECSTATE WASHDC PRIORITY 8400

INFO AMEMBASSY BONN

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USMISSION EC BRUSSELS

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AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

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PROVISIONAL FIGURES ON FRENCH NATIONAL COUNTS
THROUGH THIRD QUARTER 1975, RELEASED BY INSEE FEB. 16
(SEE PARIS A-110), SHOW REAL OUTPUT EXPANDED AT
ANNUAL RATE OF ROUGHLY 2.1 PERCENT BETWEEN APRIL AND
OCTOBER, FOLLOWING SHARP DECLINE IN FINAL QUARTER
OF 1974 AND "BOTTOMING-OUT" IN FIRST QUARTER 1975.
HOUSEHOLD SPENDING INCREASED AT ACCELERATING RATE
DURING FIRST NINE MONTHS OF 1975, WITH REAL INCREASE
IN TOTAL CONSUMPTION EXPENDITURES AMOUNTING TO 4.1
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PERCENT FOR THE PERIOD. GROSS FIXED INVESTMENT WAS

UNCHANGED FROM SECOND TO THIRD QUARTER; DRAWING-DOWN OF STOCKS CONTINUED INTO THIRD QUARTER, HOWEVER, EQUIVALENT IN VOLUME TO 5.6 PERCENT OF PREVIOUS QUARTER'S TOTAL OUTPUT. NET FOREIGN BALANCE ON GOODS AND SERVICES BEGAN TO NARROW IN SECOND AND THIRD QUARTERS AS REAL IMPORTS ACCELERATED AND EXPORTS GREW ONLY SLIGHTLY IN REAL TERMS.

FRENCH DEMAND AND OUTPUT

(REAL QUARTERLY CHANGES IN PERCENT,
SEASONALLY ADJUSTED AT ANNUAL RATES)

74-IV 75-I 75-II 75-III

PRIVATE CONSUMPTION -1.2 2.8 6.7 9.0

PUBLIC CONSUMPTION -1.2 2.8 -6.4 2.6

GROSS FIXED
INVESTMENT -8.7 -13.0 2.5 0

FINAL DEMAND -3.5 -2.0 4.9 6.1

STOCKBUILDING (1) -2.4 -4.9 -4.6 -5.6

EXPORTS AND
NET SERVICES -14.1 -14.2 0.4 1.3

IMPORTS -37.6 -28.1 6.0 20.6

NET FOREIGN
BALANCE (1) 3.4 4.1 3.9 3.0

GROSS INTERNAL
PRODUCT (2) -14.6 -9.4 5.9 -1.6

NOTES: (1) CHANGE EXPRESSED AS PERCENT OF G.I.P.
IN PRECEDING PERIOD; (2) GROSS INTERNAL PRODUCT
("PRODUCTION INTERIEURE BRUTE") IS A MEASURE OF TOTAL
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OUTPUT, PECULIAR TO FRENCH NATIONAL ACCOUNTS, WHICH
IS ESSENTIALLY EQUAL TO GROSS DOMESTIC PRODUCT LESS
SERVICES PERFORMED BY GOVERNMENT EMPLOYEES, DOMESTIC
SERVANTS, AND PRIVATE INSTITUTIONAL EMPLOYEES.

15. OTHER REPORTS SUBMITTED DURING THE PERIOD--

TELEGRAMS:

4783 PARIS FOREIGN EXCHANGE MARKET 2/17/76

5532 PRESS REPORTS ON TAX ON GOLD 2/24/76

AIRGRAMS:

A-94 2/13/76 FRENCH FOREIGN EXCHANGE HOLDINGS

A-97 2/19/76 TRADE WITH SOVIET BLOCK

A-99 2/19/76 TRADE WITH COMMUNIST AREAS IN 1975

A-100 2/19/76 FRENCH BALANCE OF PAYMENTS:

PRELIMINARY FIGURES FOR SECOND HALF 1975

A-103 2/20/76 FRENCH FOREIGN EXCHANGE HOLDINGS

A-110 2/26/76 FRENCH NATIONAL ACCOUNTS THROUGH
THIRD QUARTER 1976

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